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OPERATIONAL BUDGET: REIMBURSEMENT FOR PROGRAMME SUPPORT AND ADMINISTRATIVE SERVICES

Reimbursement for special trust fund projects in accordance with financial rule 106.21

Proposal by the Director-General

Summary

In compliance with General Conference resolution GC.4/Res.28 considers the application of financial rule 106.21 to special trust fund projects, taking into account the UNDP cost measurement study on reimbursement for programme support and administrative services.

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Introduction

1. The present document is submitted in response to General Conference resolution GC.4/Res.28 on guidelines for special trust fund projects, in which the Director-General is requested to present to the tenth session of the Industrial Development Board, through the Programme and Budget Committee, a proposal on the application of financial rule 106.21, taking into account the cost measurement study undertaken by the United Nations Development Programme (UNDP). The document presents the main results of the cost measurement study that are applicable to special trust fund projects and the structure of the successor arrangements, and analyses the composition of special trust fund project delivery. It then sets out a proposal for the reimbursement of support costs for special trust fund projects, in accordance with financial rule 106.21.

2. Financial rule 106.21 stipulates that programme support and administrative services for the preparation and implementation of projects and other activities of the programme of the Industrial Development Fund, of a trust fund or of a reserve or special account, shall be provided by the various units of the UNIDO Secretariat. In accordance with the same rule, reimbursement for such services from the resources of the Fund, trust fund or reserve or special account shall be authorized by the Director-General at the rate of reimbursement to executing agencies currently applied by UNDP, unless the estimated actual costs of programme support and administrative services in respect of an individual project or activity justify a different rate, to be set by the Director-General upon the advice of the Director, Financial Services.

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I. THE COST MEASUREMENT STUDY

3. The cost measurement study carried out in accordance with UNDP Governing Council decision 90/26 on agency support costs is the subject of a separate report contained in document IDB.10/7-PBC.8/3. The study analysed the costs incurred by the Food and Agriculture Organization of the United Nations (FAO), International Labour Organisation (ILO), United Nations Department of Technical Cooperation Development (UNDTCD), United Nations Educational, Scientific and Cultural Organization (UNESCO), and UNIDO in providing: (a) administrative and operational services to projects; (b) technical support services to projects; and (c) technical support services at the programme level. For the present report, the first two components are of direct relevance.

4. For administrative and operational services (AOS), the study identified eight clusters of services that are provided by executing agencies to ensure delivery of inputs to projects. The methodology used to measure the average cost of providing those services for each of the five agencies studied is described in document IDB.10/7-PBC.8/3, paragraph 4. Table 1 below gives the average costs to those agencies by service (column 1) compared with the costs to UNIDO (column 2). The reimbursement percentages that UNDP will use are also given (column 3); these percentages have been computed to provide an average weighted reimbursement of 10 per cent for existing delivery patterns, to reflect the reimbursement limitation established by the UNDP Governing Council in its decision 91/32, paragraph 20.

5. In the study, a completely different approach was adopted with regard to measuring and reimbursing the cost of providing technical support services to projects. As individual projects call for different volumes of various kinds of technical support, a percentage of delivery volume could not be used as a basis for reimbursement. It was decided therefore to base the amount of reimbursement on the time spent providing the services required, as identified in the project design or in the most recent project budget. The cost measurement study identified: (a) the average total cost to the five agencies of providing a Professional work-month of technical services, including all General Service support, a share in agency central services, costs of managing headquarters buildings, etc.; and (b) the average direct staff cost of Professional staff involved in the services concerned (see table 2 below). Reimbursements will be made at the rate of $9,000 for 1992 and $9,500 for 1993, with the balance of total costs provided by the agencies as a continuation of the existing cost-sharing arrangements.

Table 1

Costs of providing administrative and operational services expressed as percentage of related delivery, by cluster
(Percentage)

Cluster of services	Average costs to the five agencies	Costs to UNIDO	Reimbursement rates
Project personnel	17.22	16.26	
International	16.62	15.91	9
National	20.57	19.20	11
Subcontracting	20.68	16.42	11
Training and fellowship	30.36	24.49	
Fellowships	22.07	21.76	12
Other training	38.33	26.51	21
Equipment and supply procurement	13.59	9.39	
Local purchase	11.40	9.58	6
Headquarters purchases (< $70,000)	17.83	12.60	10
Headquarters purchases (> $70,000)	7.61	3.88	a/
Total percentage of delivery	18.43	15.17	10 b/

a/ 10 per cent up to $70,000, 4 per cent thereafter.

b/ See paragraph 4 above.

Table 2

Costs per work-month of technical support
(1992-1993)
(In US dollars)

	Average of the five agencies	UNIDO
Total cost	22,175	18,054
Direct costs a/	9,514	8,138

a/ Salary and related staff costs of Professional staff.

6. For technical support at the programme level, the same cost measurement results were applied. However, for reimbursement purposes, a different concept was developed. Since the Governing Council considered the current regular budget-financed activities carried out by agencies at the programme level (which are expected to continue at the same volume) to be agency contributions and the TSS-1 financed activities to be activities additional to the agencies' existing programme of work, UNDP would reimburse the total "additional" or "marginal" costs, including General Service and other support. For 1992-1993, a payment of $14,000 per Professional work-month was agreed upon; this figure notionally includes the amount of $9,000-$9,500 for direct costs of the Professional staff (or consultant) (see para. 5 above).

II. KEY FEATURES OF THE UNDP SUCCESSOR ARRANGEMENTS

7. The successor arrangements to the agency support costs system were designed to allow for or promote the following:

(a) In order to allow recipients and UNDP to draw on the different services or functions performed by agencies, it was decided to "unbundle" those services and functions and establish separate reimbursement systems and rates for each function and service. This covers three types of services or parts thereof: (i) technical support at the programme level (TSS-1); (ii) technical support at the project level (TSS-2); and (iii) administrative and operational support (AOS);

(b) A clear distinction has been drawn between three roles: national ownership, execution and implementation. Different parties could play these roles in any one project, with the agencies receiving reimbursement of the costs for each role they play.

III. ANALYSIS OF UNIDO TRUST FUNDS

8. In 1991, total delivery under various categories of trust funds amounted to some $31 million. Of this amount, some $9.5 million were accountable to activities related to the International Centre for Genetic Engineering and Biotechnology (ICGEB) for which a lower support cost rate was established since this major undertaking calls for relatively limited administrative and operational support from UNIDO Headquarters. Another $3.5 million were accountable to associate experts and another $0.5 million to an Investment Promotion Service office. In accordance with financial rule 106.21, special rates were established for those trust fund projects.

9. It follows from the above that trust fund delivery at present that is subject to the 13 per cent reimbursement system amounts to some $17.5 million of the $31 million delivered in 1991. However, the composition of those trust fund projects is very different from that of the UNDP indicative planning figure-funded projects, on which the cost measurement study and the AOS reimbursement rates are based. In the self-financed (SF) project category, some 90 per cent of delivery consists of international project personnel while in the third-party financed trust funds category, 67 per cent of delivery is related to international project personnel and 23 per cent to subcontracts. The cost measurement study of the five agencies found that in total delivery, international project personnel accounted for 47 per cent of total project value, national project personnel 8 per cent, subcontracts 7 per cent, equipment 24 per cent and training 14 per cent.

10. In addition to the above differences, project personnel contracts under trust funds are much longer than the average for UNIDO as a whole (approximately 3 work-months), and trust fund projects frequently involve the hiring of a number of project staff under contract from one and the same source. Furthermore, the size of subcontracts under trust fund projects is usually greater than the UNIDO average. These differences reduce the average cost of supporting the trust fund projects.

11. While it is virtually impossible to measure separately the costs of implementation for trust fund projects, it is evident from the above that the costs as a percentage of delivery are considerably lower than the 15.17 per cent established for UNIDO as a whole in the cost measurement study prepared in respect of the UNDP successor arrangements (see table 1).

12. Another factor must be taken into account. While for UNIDO, the technical cooperation activities funded by the UNDP indicative planning figure and the Industrial Development Fund (and the regular programme of technical cooperation) can be considered the main technical cooperation programme, trust-fund financed projects constitute an additional group of activities and the marginal cost of any additional activities related to those projects is considerably lower than the average costs identified in the cost study.

IV. CONCLUSION

13. The results of the analysis presented above indicate that the rates established under the successor arrangements for agency support costs would not be appropriate for trust fund projects. Furthermore, the key features of the UNDP successor arrangements outlined in paragraph 7 above, i.e. flexibility in terms of obtaining

individual agency services for parts of projects only, is likewise not relevant to trust fund projects. Trust fund projects in general, and self-financed projects in particular, are tailor-made to include only those inputs and services that are required of UNIDO.

14. As long as trust-fund financed activities (except those related to ICGEB, associate experts and similar special projects) continue to display the special features outlined above, it is reasonable to assume that the total marginal cost of providing AOS services to those projects is well below the 15 per cent established for all projects; in all probability, it is even below 10 per cent. If the direct costs of technical support to large projects of the type funded by the TSS-2 facility are added, the present 13 per cent will, in most cases, cover the cost to UNIDO.

15. With the introduction of the successor arrangements for agency support costs, the provision relating to the "rate of reimbursement to executing agencies currently applied by UNDP" referred to in financial rule 106.21 no longer applies. Given the results of the cost measurement study, the Director-General is in a position to apply the second part of the rule in accordance with the following proposal.

V. PROPOSAL

16. UNIDO will continue to monitor closely the composition and size of trust fund projects and related activities. Until such time as it becomes clear that the cost of supporting those projects differs appreciably from the present rate of reimbursement (13 per cent), that percentage will in principle apply to those projects.

17. For very large projects or projects with a composition of inputs that differs considerably from that of the average trust fund, specific rates may continue to be negotiated, due consideration being given to the costs as measured in the cost study. This applies specifically to projects with large equipment components.

18. For projects containing a heavy demand for technical support, the costs of providing those services should be built into the project itself, using the current rate for TSS-2 services applied to UNDP projects.

VI. ACTION REQUIRED OF THE COMMITTEE

19. The Committee may wish to take note of the proposal contained in the present document.